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Antecedents and Consequences of Consumers' Evaluation of Global Brands' Extensions

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Abstract: Drawing theoretical support from categorization theory and associative network theory, the study presents an extended model of global brands' extension success and its reciprocal transfer effect on core brand image. The results for 558 responses, collected using convenience sampling approach, reveal that brand origin-extension fit and country of manufacturing-extension fit as the drivers of global brands' extension success are mediated through parent brand-extension fit. Moreover, a positive extension attitude reinforces the consumers' association with the parent brand. This is possibly the first study of its dominion which empirically validates a new fit construct, namely: country of manufacturing-extension fit, as a key factor in extension success determination.

Keywords: Parent brand-extension fit, Brand origin-extension fit, Country of manufacturing-extension fit, Extension evaluation and choice, Brand image.

1. INTRODUCTION

In the incessantly evolving and highly competitive market structure, advancement in either the organizations' internal processes or market offerings is necessary to survive in the long run. The limited supply of funds coupled with the high financial risk confines the capacity of many enterprises to launch new brand names for new products. In such a scenario, business development through 'brand extension' is a very competitive tool for the business strategist. Originally, brand extension is the "extended use of already established brand names for offering new product/services, different from the parent product/ service category" (Aaker and Keller, 1990).

Companies operating globally can introduce the new extension across multiple countries at the same time using their already established distribution network; so, globally operating companies have greater capability to take the advantages of extension strategy (Özsomer, 2012); but most of the studies on brand extension are generic in nature (Czellar, 2003). Moreover; resulting from increasing economic pressures, a dramatic shift in manufacturing setups of many global brands from their originating country to other countries has decomposed the consumers' conceptualization of Country of Origin (COO) into two dimensions: Brand Origin (BO) and Country of Manufacturing (COM) (Hamzaoui-Essoussi *et al.,* 2011). Literature on brand equity divulges that consumer consider both the brand origin and its manufacturing country while making any inferences about its quality (Hamzaoui and Merunka, 2006). Grounded on categorization theory and brand equity research, our study proposes and empirically validates an extended model of global brands' extension evaluation by introducing a new fit construct, namely: country of manufacturing-extension fit (CMEF); along with the parent brand-extension fit (PBEF), and brand origin-extension fit (BOEF). The primary objective of brand extension approach is to strengthen the core brand connotations and improve the brand image in consumers' mind (Moorthy, 2012). It is formulated through backward-effect of extension preferences on the earlier beliefs about the core brand (Martínez and Chernatony, 2004). So, this study further extends the proposed model to measure the reciprocal effect of extension on core brand image. In the following sections; first, theoretical background and a brief review of literature; subsequently, research methodology, analysis, and findings of the study; and finally the managerial implications and study limitations and prospects for the future research are presented.

2. THEORETICAL BACKGROUND

Categorization Theory: This theory suggests that consumers classify objects into different cognitive groupings/structures. These groupings, stored in consumer's mind, are based on some similarities or attributes overlap between the objects within the group, and facilitate the consumers for improved understanding and better information processing (Rosch and Mervis, 1975). Alike brands, countries may also be observed as categories to which an extension can be grouped (Alden *et al.,* 1993).

Associative Network Theory: The theory of associative network postulates that consumers frame a specific image of a brand with in their minds; a cognitive conception, developed on the basis of their past brand experiences (Anderson, 1983). An association of a new product class with the existing

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brand name needs some restructuring in the existing cognitive schema. It can be abstracted as the reverse impact of extension evaluation on pre-extension brand image, resulting into a new post-extension image of the brand (Martínez and Chernatony, 2004).

3. MODEL BUILDING

3.1 Parent Brand-Extension Fit:

Perceived parent brand-extension fit; conceptualized as a connection between parent brand and extension from different perspectives i.e. identical product category, brand concept consistency, and salient brand specific associations; escorts consumers to exhibit positive extension attitude (Mao and Krishnan, 2006). The expansion into high fit product categories creates a synergistic effect that serves as a key influencer in consumers' total assessment of the extension (Shine *et al.*, 2007). So, we corroborate following proposition for PBEF:

*H1: Parent b*rand-*extension fit significantly influences the extension evaluation* and *choice.*

3.2 Brand Origin-Extension Fit:

Borrowing the concept of fit from extension literature (Aaker and Keller, 1990); Roth and Romeo (1992) formerly introduced the notion of match between the countries and product categories. This labelling serves as another potential source of cognitive schema and facilitates in better information processing about a particular country. Recent studies (Sichtmann and Diamantopoulos, 2013), extending the concept of country fit effect in brand extension theory, advocated that extensions introduced by a brand may also have a good fit with its originating country based on some overlapping features as with the parent brand. This conceptualization of fit so-called 'Brand Origin-Extension fit', the perceived capability of the brand's originating country to conceive the respective extension category, minimizes the risk factor and aids in positive extension evaluation (Balabanis and Diamantopoulos, 2011). Following Iversen and Hem (2011); akin to other attributes, brand origin may also be another potential source of feature overlap between parent brand and its extension. This implies that BOEF also responds to various inconsistencies in consumers' minds specific to why a brand extends into a particular product category and facilitates in improved understanding of extension fit with its parent brand as well (Sichtmann and Diamantopoulos, 2013). Bases on above considerations, we postulate that:

*H2: Parent B*rand-*Extension fit mediates the relationship between B*rand *Origin-Extension fit* and *extension evaluation* and *choice.*

3.3 Country of Manufacturing-Extension Fit:

Identical to the brand origin fit, consumers also cogitate the product fit with its country of manufacturing in quality evaluation (Lee and Schaninger, 1996); evidenced by the heterogeneity in manufacturing capabilities of different countries for a given product category (Fetscherin and Toncar, 2010). Studies further reveal the strong consumers' favoritism towards the developed countries' production relative to developing countries (Insch and McBride, 2004); i.e. many automotive and electronics brands suffered erosion of brand preference after shifting their manufacturing facilities to low-fit developing countries (Iyer and Kalita, 1997). Our study suggests that a similar cognitive mechanism to determine the fit is also in work for the newly launched extensions. We call this new concept 'Country of Manufacturing-Extension fit', as it refers to the attributes commonality or associations overlay between the extension class and country of manufacturing. The extension fit with its manufacturing country provides an ample support to justify the manufacturing of an extension in a particular country and favorably influences the extension evaluation. Moreover, a good CMEF also leads to a better consumers' perception of extension fit with its parent brand. So, we propose that:

*H3: Parent B*rand-*Extension fit mediates the relationship between Country of Manufacturing-Extension fit* and *extension evaluation* and *choice.*

*H4: Country of Manufacturing-Extension fit effect on Parent B*rand-*Extension fit* and *extension evaluation* and *choice is stronger for developed countries comparative to developing countries.*

3.4 Post-Extension Brand Image:

The ultimate objective of the brand extension strategy is to reinforce the consumers' associations with the core brand; however, most of the literature in this field is only limited to the brand extension success factors, commonly known as *forward effect* (Czellar, 2003), and ignored its *backward effect*, where extension valuation has a reciprocal impact on the core brand image. Research findings reveal that a favorable extension assessment leads to stronger consumers' association with the core brand and vice versa (Melewar *et al.*, 2013). These findings are equally confirmed in different cultural contexts i.e. Asia (Chen and Liu, 2004) and Europe (Martínez and Chernatony, 2004). Consistent with the earlier findings, we hypothesize that:

H5: A favorable extension evaluation and *choice has a statistically significant* and *positive effect on post-extension b*rand *image***.**

Based on aforesaid hypotheses, figure-1 presents our conceptual model for global brands' extension evaluation and its consequences on the image of core brand.

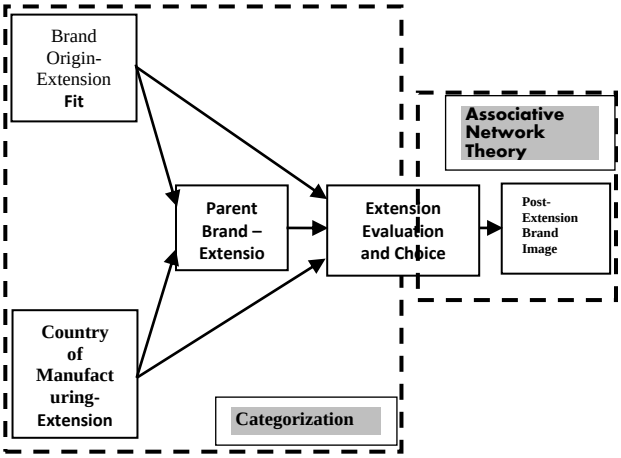


Fig.1: Conceptual Model

4. RESEARCH METHODOLOGY

To test the proposed model, the study uses a large assortment of real brand from Information Technology and Automotive industry along with their hypothetical extensions. The selection of brands surveyed in study was based on international brand ranking reports, including: Best Global Brands (2013) by Interbrand and Global Top 100 Brands (2013) by Eurobrand. In addition to that; we also had to ensure that our respondents are quite familiar with those brands so that a logical and candid evaluation of the extensions can be made. Two brands from each of the above industries; accessible in Pakistani market were selected for the study. The manufacturing place directory for the selected brands was reviewed to select two manufacturing countries for each brand, out of which one stayed in developed while other in developing countries. Hypothetical extensions have been focused so that possibly negative factors like survival bias can be avoided (Keller and Aaker, 1992). A total of 8 pairs of data on the basis of industry / brand / BO / COM / extension has been yielded by this research design. Subsequent analysis has been conducted by grouping data into 02 sets on the basis of COM; Group-1 consists of developed country of manufacturing and Group-2 comprises of developing country of manufacturing. **(Table-1)** presents our research design in detail:

Table-1: Research Design

Group	Industry	Brand	Proposed Extension	BO	COM	Sample
Group-1	Automotive	Toyota	Home Power Generators	Japan	USA*	63
		Honda	Air Conditioners	Japan	USA*	65
	IT	Apple	Pocket Printers	USA	Ireland *	93
		HP	Smart Watches	USA	Japan*	76
Group-2	Automotive	Toyota	Home Power Generators	Japan	Pakistan+	89
		Honda	Air Conditioners	Japan	Pakistan+	61
	IT	Apple	Pocket Printers	USA	China+	73
		HP	Smart Watches	USA	China+	68

* Developed Country, + Developing Country

4.1 Data Collection and Sampling:

To cover a wide range of respondents; the customers in super markets and shopping malls of metropolis, business executives, and university students were surveyed. Following convenience sampling technique, data was collected through interviews with the individual respondent and correspondence over e-mail. Out of the total 1000 questionnaire, 670 were received. Because of missing values in some responses, 588 effective responses were collected; resulting into the response rate of 58.8% in general (59.4% and 58.2% for Group-1 and 2 respectively). The demographics of the sample are presented in **(Table-2).**

Table 2: Descriptive statistics

Construct	Mean	SD	Cronbach's α
Parent Brand -Extension Fit (PBEF)	4.03 (4.01)	0.68 (0.68)	0.810 (0.802)
Brand Origin-Extension Fit (BOEF)	4.00 (4.02)	0.64 (0.67)	0.810 (0.818)
Country of Manufacturing-Extension Fit (CMEF)	3.99 (3.88)	0.68 (0.78)	0.831 (0.811)
Extension Evaluation and Choice (EEC)	4.02 (3.98)	0.63 (0.66)	0.846 (0.843)
Post Extension Brand Image (PEBI)	4.01 (3.99)	0.62 (0.65)	0.813 (0.815)

Values without parenthesis are for Group-1 and *values in parenthesis are for Group-2*

Measurement Model:

Following two-step approach, we use AMOS (Ver. 21.0) to calculate the results of our measurement model and succeeding structural regression model (And erson and Gerbing, 1988). To satisfy all the preliminary condition of structural equation modeling (SEM), we accounted for scale unidimensionality, reliability, and validity (incl. both the convergent and discriminant validity) using confirmatory factor analysis (CFA) approach. The result in **(Table-3)** reveal that all the items of the scale are being loaded only on their respective construct and each item loading is greater than the cut-off value 0.500, which proves the unidimensionality of our study measures.

Table 3: Factor loadings

Construct	No. of items	Factor Loadings Construct	
PBEF	4 (4)	0.605, 0.719, 0.709, 0.860	(0.500, 0.674, 0.639, 0.947)
BOEF	4 (4)	0.742, 0.682, 0.702, 0.748	(0.831, 0.610, 0.641, 0.769)
CMEF	4 (4)	0.829, 0.694, 0.857, 0.661	(0.617. 0.811, 0.593, 0.783)
EEC	5 (5)	0.776, 0.707, 0.816, 0.569, 0.683	(0.714, 0.619, 0.899, 0.742, 0.605)
PEBI	4 (4)	0.761, 0.665, 0.776, 0.685	(0.830, 0.753, 0.647, 0.674)

Values without parenthesis are for Group-1 and *values in parenthesis are for Group-2.*

Table 4: Psychometric Properties

Construct	CR	AVE	PBEF	BOEF	CMEF	EEC	PEBI
PBEF	0.817 (0.793)	0.531 (0.502)	0.729 (0.709)	0.097	-0.073	0.206	0.190
BOEF	0.810 (0.808)	0.517 (0.516)	0.083	0.719 (0.718)	0.028	0.419	0.172
CMEF	0.848 (0.797)	0.585 (0.501)	0.133	0.173	0.765 (0.708)	0.019	-0.127
EEC	0.837 (0.842)	0.513 (0.519)	0.203	0.223	0.218	0.714 (0.722)	0.396
PEBI	0.813 (0.818)	0.524 (0.531)	0.219	0.045	0.081	0.342	0.724 (0.729)

Values without parenthesis are for Group-1 and *within parenthesis are for Group-2; Values above (below) the diagonal are shared variances for Group-2 (Group-1).*

The assessment of convergent and discriminant validity of our scale is grounded on the approach suggested by (Fornell and Larcker, 1981). According to (Jöreskog, 1971), the results of composite reliability (CR) confirm the reliability of the scale used study. The score of average variance extracted (AVE) for each factor is greater than 0.5, which proves the convergent validity of our scale. A comparatively high score of AVE for each variable than the shared variances of the other factors in the model is an idication of discriminant validity of the scale. The psychometric properties of our proposed model, for group-1 and 2, are reported in **(Table 4)**.

The goodness of our proposed model is drawn on the basis of absolute fit indices. According to (Kline, 2010), the results demonstration a good model fit (χ^2= 220.955, 227.249; df= 177, 175; P-value= 0.014, 0.005; χ^2/df= 1.248, 1.299; AGFI= 0.924, 0.922; GFI= 0.942, 0.941; TLI= 0.980, 0.976; CFI= 0.983, 0.980; RMSEA= 0.027, 0.030; and PCLOSE= 1.000, 1.000 for Group 1 and 2 respectively).

Because of reliance on single data collection source, we further examined our data set for the potential issue of common method bias (CMB) which may be the case, following Harman's single factor approach (Podsakoff, Mackenzie, *et al.,* 2003). According to the test; in case of CMB, the fit indices for a signal factor model would yield a relatively better picture than the original model fit indices. The results reveal that CMB is not an issue, since the results of single factor model fit (χ^2= 1932.083, 1495.795; df= 189, 185; P-value= 0.000, 0.000; χ^2/df= 10.223, 8.085; AGFI= 0.506, 0.601; GFI= 0.596, 0.681; TLI= 0.262, 0.419; CFI= 0.336, 0.489; RMSEA= 0.166, 0.147; and PCLOSE= 0.000, 0.000 for Group 1 and 2 respectively) got worse, comparative to the original five factor model.

Structural Regression Model:

For validating our study hypothesis, we applied SEM technique because it assists in executing the multiple regressions equation at the same time. Many of the researchers also recommended to use SEM in social science researches (Gefen, *et al.,* 2000). Bootstrapping was applied for the calculation of direct and mediated effects and their p-values. The fit indices for structural model are: χ^2= 227.149, 243.723; df= 180, 178; P-value= 0.010, 0.003; χ^2/df= 1.262, 1.319; AGFI= 0.923, 0.921; GFI= 0.940, 0.939; TLI= 0.979, 0.974; CFI= 0.982, 0.978; RMSEA= 0.028, 0.031; and PCLOSE= 1.000, 0.999 for Group 1 and 2 respectively. The results of SEM for both groups are presented in **(Table 5)**.

Table 5: Direct effects

Relationship	Un-stand ardized (Stand ardized) Estimate			
	Group-1		Group-2	
PBEF→EEC	0.13*	(0.16)	0.17†	(0.14)
BOEF→PBEF	0.08ns	(0.06)	0.07†	(0.12)
BOEF→EEC	0.14*	(0.13)	0.29***	(0.39)
CMEF→PBEF	0.12*	(0.12)	-0.04ns	(-0.08)
CMEF→EEC	0.13**	(0.16)	0.00ns	(0.00)
EEC→PEBI	0.34***	(0.37)	0.43***	(0.42)

*†P<0.10,*P<0.05, **p<0.01, ***p<0.001; Values in the parenthesis are* stand *ardized estimates.*

In case of Group-1, as hypothesized, the result reveal that parent brand -extension fit has significant positive impression on consumers' extension evaluation and its choice (β=0.13, p<0.05), providing support for our hypothesis (H1). For testing the proposed mediated paths; the results demonstration that brand origin-extension fit ($\beta=0.08^{ns}$) has an insignificant impact on PBEF; while country of manufacturing-extension fit (β=0.12, p<0.05) have a significant positive effect on PBEF, supported by statistically significant and non-zero regression estimate. Hence, our proposed hypothesis of mediated effect of BOEF on EEC via PBEF (H2) is rejected here. However, a direct effect of BOEF on EEC is found (β=0.14, p<0.05). The significant direct effects (CMEF→PBEF and PBEF→EEC) fulfill the basic assumptions of mediated effect of CMEF on EEC via PBEF (Baron and Kenny, 1986). For the identification of type of mediation; further analysis reveal that direct effect of CMEF on EEC is statistically significant (β=0.13, p<0.05), as well as, the corresponding indirect effect (CMEF→PBEF→EEC) is also significantly positive (β=0.02, p<0.05) and the associated bias-corrected confidence interval (BCCI) limits don't include any negative value **(Table 6)**.. Our result provide support for the partially mediated relationship for hypothesis (H3),

Table 6: Indirect effects

Relationship	Group-1				Group-2			
	Estimate		BCCI		Estimate		BCCI	
			Lower	Upper			Lower	Upper
BOEF→PBEF→EEC	0.01ns	(0.01)	-0.004	0.032	0.01†	(0.02)	0.001	0.044
CMEF→PBEF→EEC	0.02*	(0.02)	0.004	0.049	-0.01ns	(-0.01)	-0.039	0.001

*BCCI Bias-corrected confidence intervals, †P<0.10, *P<0.05, **p<0.01 Un-*stand *ardized (St*and *ardized) Estimates*

as all the direct and indirect effects are found significant. The reciprocal effect of EEC on PEBI is found significantly positive (β=0.34, p<0.001), supporting our hypothesis (H5).

The examination of our proposal for the second group reveals that a significant relationship between PBEF and EEC (β=0.17, p<0.10) supports our hypothesis (H1) here also. Regarding mediated paths, the direct effects of BOEF on both the PBEF (β=0.07, p<0.10) and EEC (β=0.29, p<0.001) is found statistically significant. While, CMEF neither correlated with PBEF nor EEC significantly.

5 DISCUSSION

The results of our study, explaining 65% and 64% variance in total for Group-1 and 2 respectively, suggest that factors analyzed in our study are of high consideration. The findings for both confirmed that parent brand-extension fit is the prime reference in extension evaluation and choice, which is consistent with the former studies (Aaker and Keller, 1990). In Group-2, the mediated relationship of brand origin-extension fit with the extension evaluation via extension fit with the core brand confirmed the earlier findings (Sichtmann and Diamantopoulos, 2013); yielding partial support for our proposed hypothesis. The results of our study demonstrate interesting findings regarding country of manufacturing-extension fit effect on extension valuation. All the direct and indirect effects report significant results in case of manufacturing in developed countries (Group-1); while in case of manufacturing in developing countries (Group-2), its effect is totally insignificant. These findings suggest that Pakistani consumers perceive a better extension fit with its COM when it is manufactured in a developed country, which exerts a positive impact on extension fit with the parent brand and extension evaluation as well. For the developing country factory-made extensions, consumers feel that extension is incongruent with its COM, resulting into an insignificant impression on PBEF and EEC. These findings reveal partial support for our proposed hypotheses for country of manufacturing-extension fit. The result of our study contribute important insights to existing research on country of manufacturing effect (Essoussi and Merunka, 2007). Another important finding of our study is that BOEF effect is relatively stronger in Group-2; suggesting that in case of developing country factory-made extensions, consumers assign more weightage to the extension fit with its originating country. Lastly; consistent with the literature that positive extension attitude strengthens the parent brand image (Melewar *et al.,* 2013), our results for both the groups demonstrate a significant positive linkage between EEC and PEBI. To sum-up above discussion, results reveal the importance of both the country level fit variables in extension success determination and its consequences on core brand image.

6. CONCLUSION

The findings of our study offers several recommendations for the global marketers regarding extension success and brand positioning. Entering into the extension class, which scores high on proposed country level fit dimensions, assures greater chances of success, as it not only leads to improved understanding about extension fit with the parent brand and positive extension evaluation, but also reinforces the consumers association with the parent brand. Secondly, advertising strategies should be designed to facilitate the consumers to formulate a better extension fit with respective to parent brand / brand origin / country of manufacturing. These findings equally apply to the other developing countries characterized by similar consumers' characteristics.

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